

CLEVELAND PUBLIC LIBRARY
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CORPORATION FILE





PROPOSED MERGER

On March 5, 1968, we signed an agreement to merge two department store operations—Lipman's in Oregon and Diamond's in Arizona—with Dayton Corporation. They are owned by Roberts Bros., whose shareholders would receive 693,000 shares of Dayton Corporation Common Stock under terms of the merger. The merger is subject to the approval of shareholders of both companies.

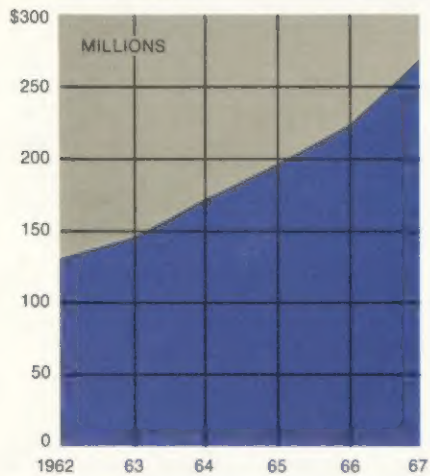
Lipman's and Diamond's had a 1967 sales volume of \$45 million and net income of \$2.5 million. If Lipman's and Diamond's results had been consolidated with Dayton Corporation's results for 1967, sales would have been \$311 million, net income \$12.1 million, and our earnings per share would have been increased by 19 cents from \$2.21 to \$2.40.

Under the management of the two Roberts brothers, the stores have compiled a cumulative annual growth rate of 8 percent in sales and 17.5 percent in profits over the last five years. William and Richard Roberts will continue in their present positions as chief executive officers of Lipman's and Diamond's, respectively.

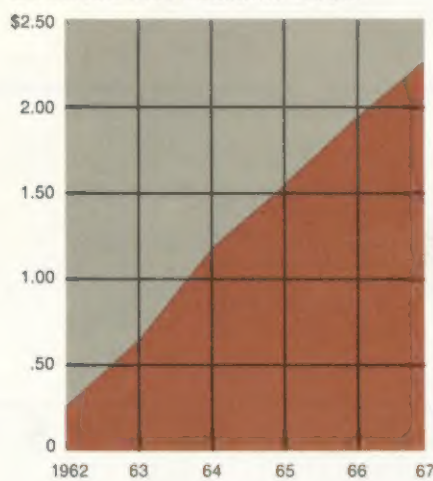
The merger puts Dayton Corporation into two new major markets where opportunities for growth are excellent. Lipman's is the second largest department store in the Portland market of over 927,000 population and concentrates on the better price lines. Lipman's branch stores are located in a suburban Portland shopping center, and in Salem and Corvallis, Oregon. In Phoenix, Diamond's is the leading department store operation with two large stores both located in shopping centers. Diamond's will be breaking ground for a third store within the next 90 days. Metropolitan Phoenix exceeds 900,000 population and is one of the fastest growing areas in the nation.

Dayton Corporation financial information in this annual report does not include Lipman's and Diamond's results.

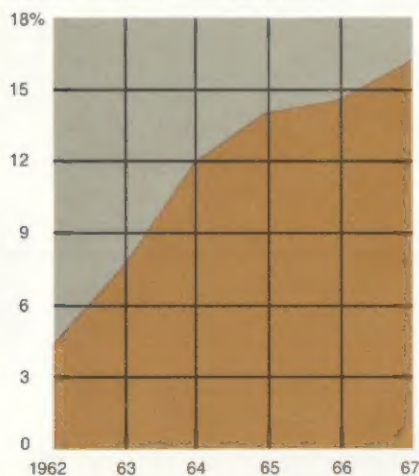
TOTAL REVENUES



EARNINGS PER COMMON SHARE



RETURN ON BEGINNING
SHAREHOLDER'S INVESTMENT



Total revenues

\$265,507,570

\$225,617,173

percent
increase

18

Net income

9,586,583

8,166,944

17

Earnings per
common share

2.21

1.88

18

Shareholders'
investment

73,913,374

60,572,869

22

Working capital

44,182,388

34,079,876

30

Average common
shares outstanding

4,227,488

3,905,878

TO OUR SHAREHOLDERS:

1967 was a significant growth year for Dayton Corporation — in sales, profits and geographic expansion. Consolidated revenues were \$265,507,570, an increase of more than 18 percent over the previous year. Net income of \$9,586,583 represented a 17 percent gain. Earnings per common share rose to \$2.21, an 18 percent increase.

Dayton's department stores had a healthy growth rate with the St. Paul and Southdale stores achieving the largest advances. Sales of the department store division increased more than 9 percent, while profits improved correspondingly. The expanding Target discount stores division made a substantial contribution to volume and earnings, increasing sales by 43 percent and more than doubling profits. In their first full year of operation, Target's two Denver stores matched the initial performance of the Twin Cities Target stores. The new Fridley and West St. Paul Target stores, which opened in October, operated at a profit for the year after absorbing all pre-opening expenses. In the specialty store area, we are pleased with the acceptance of B. Dalton, Book-seller and the sales rate which the stores are achieving.

Dayton Corporation expanded across the country, adding 291,600 square feet of store area in 1967, which increased total retail space to 3,628,600 square feet. Capital expenditures for the year were \$10,705,548. We added two Target stores and eight B. Dalton stores and formed a new operating division — Dayton Jewelers — to develop the opportunities we see in the fine jewelry field. Dayton Jewelers combines J. B. Hudson, Jeweler, operated by Dayton's since 1929, with Shreve and Company, San Francisco, which was merged into Dayton Corporation in November.

Dayton Corporation now has retail operations in Minnesota, Arizona, California, Colorado, Missouri, Ohio and Wisconsin.

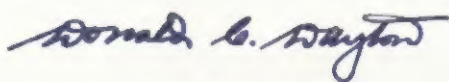
The name change to Dayton Corporation, which was accomplished during the year, signified the establishment

of a corporate office to work with our five autonomous divisions — Dayton's department stores, Target Stores, B. Dalton, Bookseller, Dayton Jewelers, and Dayton Development Company. This enables specialized management teams to concentrate on developing each division's full potential.

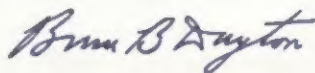
Our first sale of Common Stock to the public was made on October 18, 1967 when 450,000 shares were offered at \$34 a share. The stock achieved broad distribution and is traded in the national over-the-counter market.

Our Board was strengthened by the addition of four directors from the Twin Cities community. They are Stephen F. Keating, President of Honeywell Inc., Minneapolis; Robert J. Keith, Chairman of the Board, The Pillsbury Company, Minneapolis; David M. Lilly, President, Toro Manufacturing Corporation, Minneapolis; and Philip H. Nason, President, The First National Bank of Saint Paul. During the year, Stuart W. Wells, Jr., President of Dayton's department stores and a Director, died unexpectedly and was succeeded by a two-man team: William A. Andres, Chairman of the Board, and Carl R. Erickson, President. The many programs established under Mr. Wells' leadership and his contributions to the development of our management team are lasting tributes to his abilities.

Currently, sales are strong, and we have planned capital expenditures of \$30 million for 1968, substantially more than our 1967 capital outlay. The opportunities in retailing challenge us, and our organization is eager to respond.



DONALD C. DAYTON
Chairman of the Board



BRUCE B. DAYTON
President

Dayton's Department Stores

“ The merchandising philosophy of Dayton's is based on quality and fashion. Dayton's strives to be a quality store — in our physical facilities, our merchandise assortments in all price lines, and in our customer services. Fashion — newness with direction — is the heart of our business. It has no price tag.

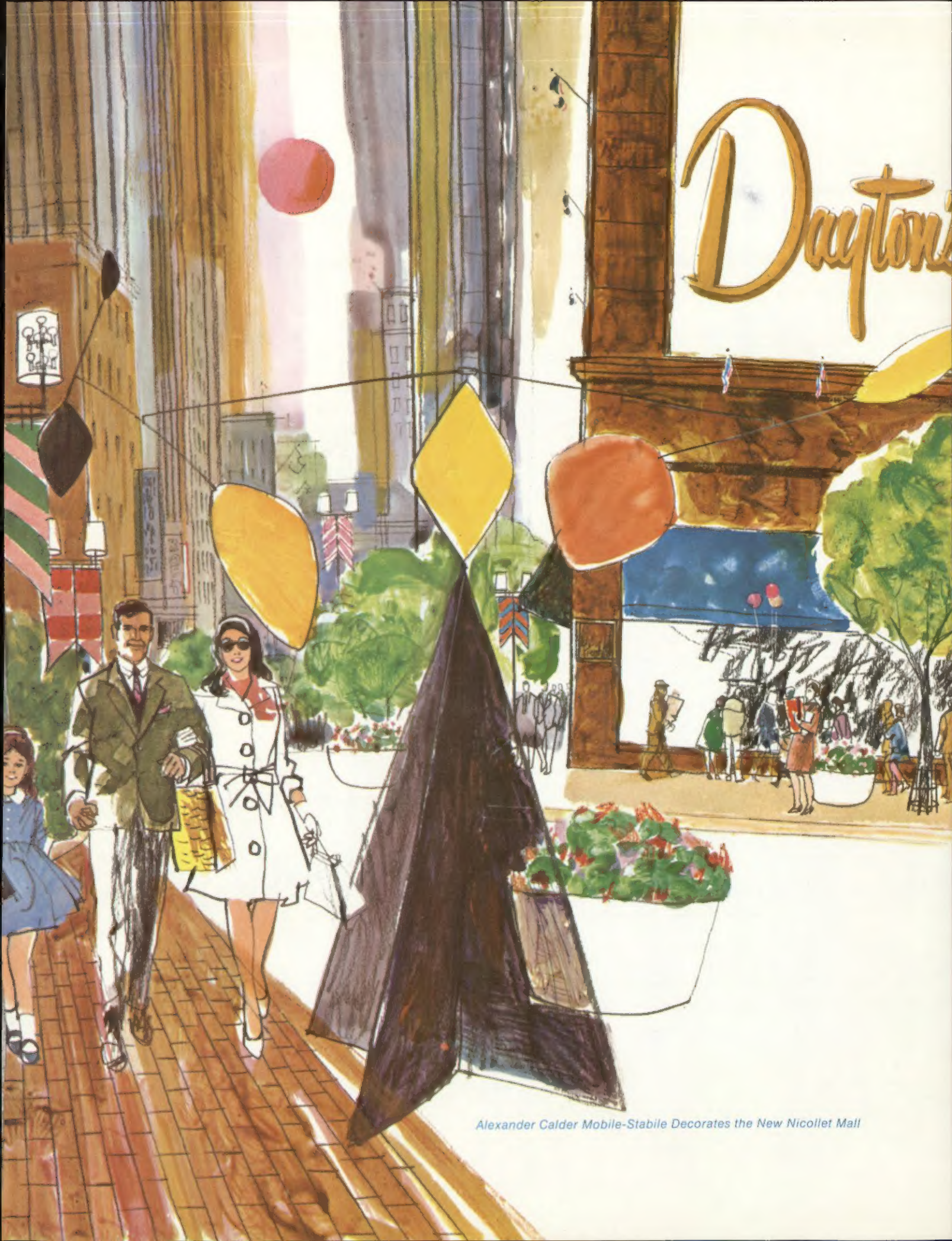
Dayton's department stores had an outstanding year as sales increased from \$154,505,868 in 1966 to \$169,068,542 in 1967, a 9.4 percent gain. This represents an acceleration of our average growth rate over the past five years.

Dayton's Southdale store had a record year, up 14.8 percent, and Brookdale showed impressive gains in its first full year of operation. Our St. Paul and Rochester stores also had healthy gains.

Our continuing search for newness, and for







Alexander Calder Mobile-Stabile Decorates the New Nicollet Mall



Fashion at a Budget in the New Dayton's Downstairs Store, Minneapolis



ways in which we can best present it to our customers, was behind many of the innovations introduced in 1967.

Newness is very much evident in our physical facilities. We invested \$1.6 million in 1967 to remodel Dayton's Downstairs in the Minneapolis store, increasing retail space by about 10 percent. Decor is in keeping with merchandise direction, and Dayton's Downstairs is now an exciting and dramatic store offering fashion at a budget price. We painted the exterior of our Minneapolis store to preserve and enhance the character of the existing building, a retail landmark, and erected an Alexander Calder sculpture on the Nicollet Mall. Both were completed in time for the Mall's dedication at Thanksgiving time.

For the 18 to 35 group, we introduced the Young Idea Center, which offers advice in home furnishings, color coordination, window treatments and room arrangement. Rapidly changing trends in men's clothing led us to open the Kenwood Shop, where men who think young can outfit themselves in the latest fashions — turtleneck sweaters, wider ties, more color, fitted suits. New services were

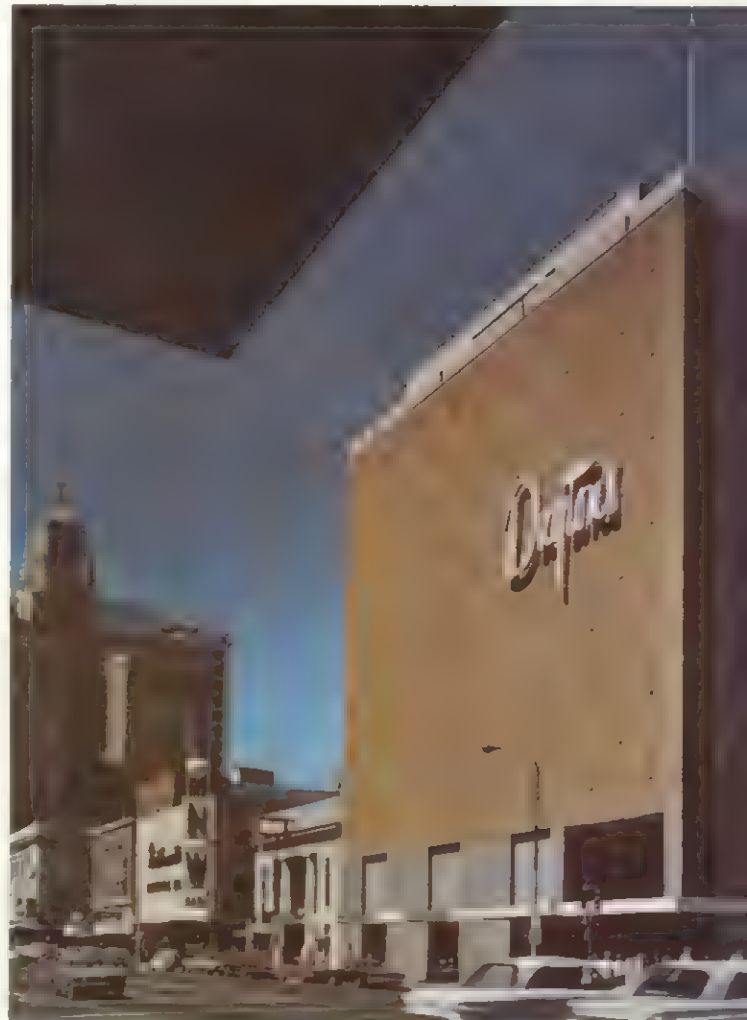
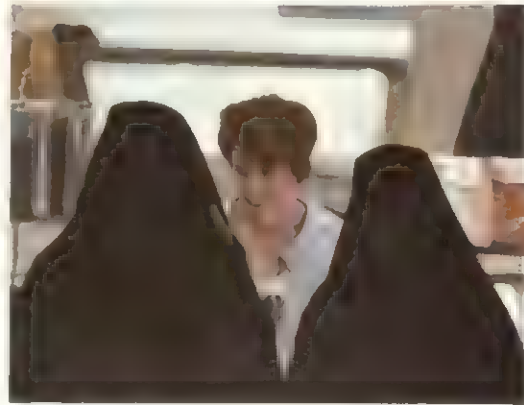
Dayton's in St. Paul, Minnesota's Capital City

added, too, including a car rental agency which raised our total services to 43. Dayton's TV production team, one of the first in any department store operation in the nation, brought viewers into our stores with 28 individual color commercials which ran a total of 664 times.

Continuing our promotional philosophy of creating attractions to bring people into our stores, Dayton's sponsored a number of special events in its auditorium facilities in 1967. In her only featured appearance in a store outside New York, "The Face of '67," Twiggy, attracted a capacity audience of 2,000 for a one-hour fashion show. A week-long program for brides and young marrieds, which drew 13,000 persons, featured national authorities like Dr. Haim Ginott, best-selling author of "Between Parent and Child," interior designer William Pahlman and Priscilla of Boston, bridal fashion authority. Our highly successful College Night brought 8,000 young people to a ticket event spread over the first four floors of Dayton's downtown Minneapolis store after regular store hours.

Dayton's is the foundation of our corporate organization—the "pad" from which we have launched forth into other strategies. Dayton's is committed to supply managerial talent for both its own growth and for at least the initial organization of our new strategies. This was underscored in 1967 as Dayton's supplied a president for Dayton Jewelers, a president for Dayton Development Company and key personnel to B. Dalton, Bookseller.

Dayton's will continue to change, adapt and innovate. We will begin construction in 1968 of a new distribution and service center. In downtown Minneapolis, across the street from Dayton's, we will begin building a new 725-car parking ramp. Construction will start in a few months on our sixth Dayton's store in our new Rosedale Shopping Center in the northern St. Paul suburb of Roseville. Recognizing the growing trend to shops where merchandise is grouped by ideas, this store will emphasize the shop concept.





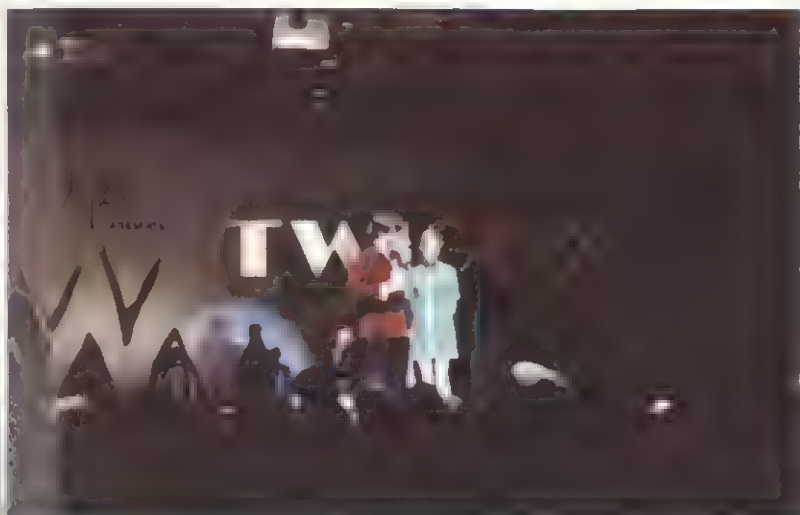
African Safari

SEARCHING THE WORLD FOR IDEAS. EVENTS

Bridal Fashions from Boston



The Face of the World - London - 1966



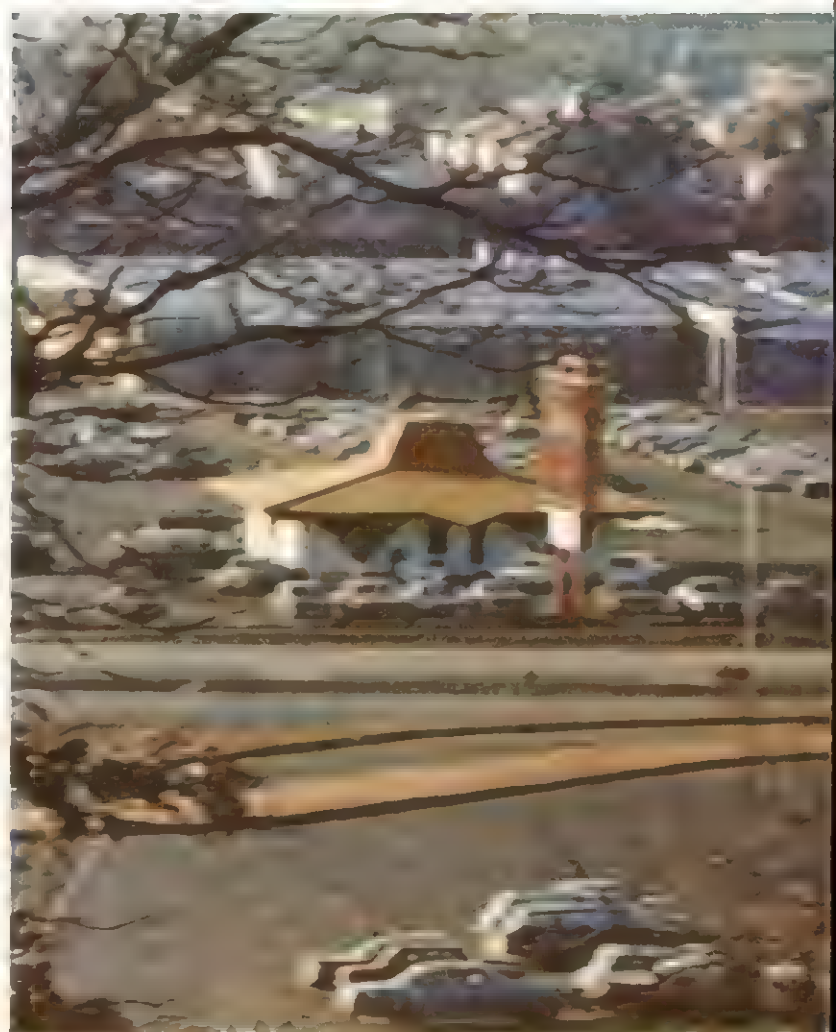


Target Discount Stores

Target's merchandising formula is quality, convenience and low margin — a combination which satisfies the everyday requirements of its customers. This has resulted in very high volume per store. Today, after six years, Target is a dynamic and profitable discount operation.

Target has enjoyed substantial growth. Sales of \$86,901,007 in 1967 were 43 percent ahead of 1966 volume of \$60,731,468. Profits increased by 161 percent.

In 1967, Target added 298,600 square feet, bringing total retail area to 1,184,900 square



New





Gateway Arch, St. Louis' Creative Tribute to Its Frontier Heritage



Target Clerks in Duluth



At the Head of the Lakes

feet, including 222,800 square feet of leased grocery space. The two stores opened in 1967 — in the Minneapolis suburb of Fridley and in West St. Paul — are each 149,300 square feet in size. They bring to six the total number of Target stores in the Twin Cities. The two Denver stores, in their first full year of business, exceeded their goals and gained a solid position in that market.

We are attracting customers with strong purchasing power. Our study shows the income level of Target customers is the second highest of all major stores, traditional or discount, in the market surveyed.

Target now is engaged in a program of taking over all of its leased departments, except groceries, which will further enhance its volume and profit potential. Accelerated computer utilization is giving us detailed information and sales analyses, and our computer now maintains inventory control on 75 percent of our merchandise. Management is being strengthened by an intensive college recruiting program which last year resulted in the



From Arch to Beam — New St. Louis Target Store Going Up

hiring of 42 college graduates.

In 1968 Target will add 447,900 square feet of retail space. Two stores will open this spring in St. Louis, and a third St. Louis store will be opened this fall, bringing the total number of Target stores to 12 by year end.

Our plan is to expand in areas where Target presently operates and to enter at least one new market each year with two stores at the outset. The next metropolitan area Target will enter is Houston, where we plan to build stores in 1969.



Western Look at Denver Target

Night View of Denver





B. Dalton, Bookseller

The basis for launching B. Dalton as a national bookstore chain was the report of a Dayton's study team which clearly revealed an opportunity to serve the burgeoning demand for books, greeting cards, educational materials and adult games. We believe we can successfully apply our basic management and merchandising talents to specialized strategies such as B. Dalton.



B. Dalton stores are situated in high-traffic shopping centers, the most recent ranging from 4,000 to 6,000 square feet in size. More than 20,000 book titles are available to each store.

B. Dalton brings to the book field modern and efficient methods from our other retailing operations. These include a computer-controlled inventory system, central buying and a modern distribution center.

During 1967 our central warehouse was enlarged and a full-circuit conveyor system was installed to meet the demands of a rapidly

growing number of stores.

The original B. Dalton store was opened in 1966 in Southdale Shopping Center, Minneapolis. Eight stores were opened in 1967 in the Los Angeles, Milwaukee, Oakland, Phoenix and St. Louis metropolitan markets.

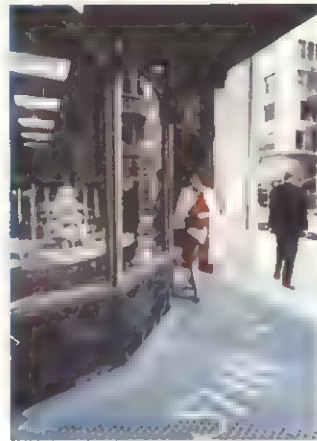
Ten stores will be added in 1968. Two of them, in suburbs of Sacramento, California, and Columbus, Ohio, are now open. Yet to be built and opened are B. Dalton stores in suburban shopping centers near Detroit, Houston, Tulsa, San Francisco, Los Angeles and Kansas City. Downtown sites in major markets are also being studied as possible locations.



B. Dalton Bookseller, Minneapolis, Minnesota, and the Bay Area



San Francisco / Oakland Across the Bay



For Fine Jewelry in San Francisco

Dayton Jewelers

Growing incomes and the public's increasing appreciation of fine jewelry make this highly profitable business particularly attractive to us. For many years, we have operated J. B. Hudson, the quality jewelry store in the Twin Cities. Shreve and Company, San Francisco's leading jeweler, is a recent acquisition. Together they offer great opportunities for expansion.

Dayton Jewelers, our newest retail operation, was established by combining J. B. Hudson, Jeweler, with Shreve and Company which was



New Look of J B Hudson, Jeweler, Brookdale Shopping Center

merged into Dayton Corporation in November 1967.

J. B. Hudson has doubled its volume since 1962 by expanding from Minneapolis to St. Paul, Southdale and Brookdale.

Shreve's, founded in 1852, is one of the 10 oldest firms in San Francisco. Today, Shreve's serves a northern California trade area of nine million in population. It also conducts a custom manufacturing business specializing in original flatware designs, table services, and silver and gold trophies for major sports events.

Using as its base the long-established customer acceptance of these quality stores and their specialized merchandising experience, Dayton Jewelers intends to expand the scope of its operations through branches. Plans call for a Shreve's branch in 1968 and a J. B. Hudson branch in the new Rosedale Shopping Center, scheduled to open in August 1969.



Shreve's: Columns, Red Carpet, Fine Jewelry



Future Southdale Office Centre

Dayton Development Company

Our real estate division maintains its position as the leading developer and operator of shopping centers in the Twin Cities area by creating large centers where customers can fulfill all their shopping needs in one visit. We accomplish this by bringing to our centers the strongest department and specialty stores and complementary services, building "satellite downtowns."

Dayton Development Company now leases to tenants 1,468,500 square feet of retail, service and office space at Southdale and Brookdale Shopping Centers in suburban Minneapolis. For 1967, real estate rentals, exclusive of intra-company arrangements, increased 15 percent to \$4,373,856. Realized gains from land sales last year were \$960,200 as compared to \$1,296,174 in 1966.

At Southdale, we completed the first building of the six-unit Southdale Office Centre. Leasing of the 40,000-square-foot structure is



Rosedale Shopping Center Opening August 1969

ahead of plan and construction of the second unit now is scheduled for completion in early fall. Ultimately, Southdale Office Centre will be a 500,000-square-foot complex. Construction and opening of a large furniture store and a major supermarket were other additions to the Southdale area during the year. Today, the growing Southdale community is a dynamic "satellite downtown" serving most of the needs of a large suburban area.

Brookdale, with retail space of over one million square feet, became the first enclosed mall shopping center in the country with four major department stores when Donaldson's opened in 1967. This growth required, among other things, an increase of 15 percent in parking area to allow space for 5,500 cars. The center's perimeter development continued with openings during the year of a supermarket, auto supplies store, savings and loan branch office, and apartments.

Construction of Rosedale, our third regional shopping center in the Twin Cities, will start in a few months on a 100-acre site in Roseville, a suburb on the north side of St. Paul. Rosedale will open in August 1969, with over a half million square feet of retail space, including a 190,000-square-foot Dayton's store. ●●

growth



working capital. In November, Shreve and Company of San Francisco was acquired through the issuance of 40,435 common shares. A Qualified Stock Option Plan also was adopted during the year and 100,000 shares were reserved for this purpose. No options have been granted under the Plan. The total number of common shares outstanding at year-end was 4,463,241.

Financial Position. Cash flow from operations, including depreciation and amortization charges of \$4,417,975, together with the new funds from the public offering, increased working capital \$10,102,512 to \$44,182,388. Cash and short-term investments totaled \$18,388,565 at year-end. Shareholders' investment increased \$13,340,505 to \$73,913,374 and long-term debt declined \$3,894,998 to \$41,799,396. The long-term debt of the real estate subsidiaries was \$24,363,774, of which more than half was applicable to space leased to outside tenants. This debt was supported by leases from these tenants. Construction of a new warehouse for Dayton's, Rosedale Shopping Center and a new parking ramp in downtown Minneapolis will be financed by \$22 million in loans from private lenders.

Accounting Policies. In computing net income, the Company uses the accrual method of reporting sales, LIFO for inventory valuation, straight-line depreciation and the flow-through method of accounting for the investment credit. Provision is made for deferred income taxes arising from the use of accelerated depreciation and the installment method of reporting income for tax purposes. The Company also charges to income, in the year incurred, interest, taxes and similar costs applicable to the construction of new facilities and pre-opening, promotion and similar expenses applicable to the opening of new stores.



FINANCIAL REVIEW

Sales and Revenues. Total consolidated revenues of Dayton Corporation for the 53-week fiscal year increased 18 percent to \$265,507,570. Retail sales rose 18 percent to \$260,173,514. Sales of Dayton's department stores were \$169,068,542, an increase of 9.4 percent. Contributing to Dayton's increase was Brookdale, which was open during all of 1967. Target's sales were \$86,901,007, an increase of 43 percent. Contributing to Target's increase were its two Denver stores, which were open during all of 1967, and its two new Twin Cities stores. Our specialty operations—B. Dalton and Dayton Jewelers—produced revenues of \$7,420,141. Real estate rentals were up 15 percent to \$4,373,856, but realized gains on land sales declined from \$1,296,174 in 1966 to \$960,200 in 1967.

Net Income. Net income of the Company increased 17 percent to \$9,586,583. All retail divisions except B. Dalton operated at a profit. B. Dalton, due to its rapid store opening program—eight stores in 1967 and 10 planned for 1968—operated at a loss. Real estate net income was not a significant factor in consolidated earnings.

Earnings and Dividends Per Share. Earnings per share increased from \$1.88 to \$2.21, an increase of 18 percent. Earnings per share are computed on the average number of shares outstanding, which was 4,227,488 for the year. In September, the Board of Directors increased the quarterly dividend rate to 20 cents and established the 21st of December, March, June and September as the quarterly dividend payment dates.

Public Offering. The Company's first public offering was made in October 1967. Net proceeds of the shares sold by the Company were \$11,155,699. These funds were used to retire the remaining \$5 million of 6 percent First Preferred Stock and to provide additional

Dayton Corporation and Subsidiaries
STATEMENT OF INCOME

	53 Weeks Ended February 3, 1968	52 Weeks Ended January 28, 1967 - Note A
Net retail sales, including sales of leased departments	\$260,173,514	\$220,511,038
Rental income	4,373,856	3,809,961
Realized gain from real estate sales	960,200	1,296,174
	<u>\$265,507,570</u>	<u>\$225,617,173</u>
Costs and expenses - Note J:		
Cost of sales and expenses exclusive of items listed below	\$228,774,730	\$195,485,919
Maintenance and repairs	1,998,950	1,021,866
Depreciation and amortization of property and equipment . . .	4,417,975	4,033,899
Rentals of real property	1,854,611	1,409,778
Interest	2,699,220	2,513,376
Taxes other than income taxes	5,765,804	5,404,607
Contribution to retirement plan - Note G	877,697	862,132
	<u>\$246,388,987</u>	<u>\$210,731,577</u>
INCOME BEFORE INCOME TAXES	\$ 19,118,583	\$ 14,885,596
Income taxes - Note A	9,532,000	6,718,652
NET INCOME	<u>\$ 9,586,583</u>	<u>\$ 8,166,944</u>
EARNINGS PER COMMON SHARE	\$ 2.21	\$ 1.88

Earnings and cash dividends per share are computed on average number of shares outstanding during each year after giving retroactive effect to stock dividends and to the shares issued in the pooling described in Note A.

See notes to financial statements.

Dayton Corporation and Subsidiaries
STATEMENT OF FINANCIAL POSITION

	February 3, 1968	January 28, 1967—Note A
ASSETS		
CURRENT ASSETS		
Cash	\$ 6,422,291	\$ 5,081,655
United States Treasury bills and other short-term investments—at cost	11,966,274	—
Accounts receivable—Note C	30,800,374	30,538,071
Merchandise inventories—Note D	38,557,396	32,151,288
Supplies and prepaid expenses	899,783	739,310
TOTAL CURRENT ASSETS	\$ 88,646,118	\$ 68,510,324
 INVESTMENTS AND OTHER ASSETS		
Marketable securities—at cost (market prices 1968—\$2,819,242; 1967—\$3,017,416)	\$ 532,958	\$ 661,204
Tenants' allowances, less amortization (1968—\$1,668,277; 1967—\$1,539,119)	1,035,609	1,111,104
Other accounts	1,807,842	1,345,315
	\$ 3,376,409	\$ 3,117,623
 PROPERTY AND EQUIPMENT—		
Notes E and F	71,843,352	72,077,625
	\$163,865,879	\$143,705,572

STATEMENT OF SHAREHOLDERS' INVESTMENT

	53 Weeks Ended February 3, 1968	52 Weeks Ended January 28, 1967 — Note A
PREFERRED STOCK		
Balance at beginning of year	\$ 4,999,300	\$14,925,100
Deduct:		
Second and Third Preferred Stock retired in recapitalization	—	8,958,700
First Preferred Stock redeemed	4,999,300	967,100
BALANCE AT END OF YEAR	<u>\$ —</u>	<u>\$ 4,999,300</u>
COMMON STOCK, less treasury stock—Notes A, B and H		
Balance at beginning of year	\$ 3,314,546	\$ 1,623,185
Par value of shares issued:		
Sold to the public	350,000	—
In recapitalization in connection with retirement of Second and Third Preferred Stock	—	223,364
Stock split effected in the form of a stock dividend (1968—1 for 4; 1967—1 for 1)	815,560	1,535,500
	\$ 4,480,106	\$ 3,382,049
Deduct par value of shares purchased for the treasury	16,865	67,503
BALANCE AT END OF YEAR	<u>\$ 4,463,241</u>	<u>\$ 3,314,546</u>
ADDITIONAL PAID-IN CAPITAL—Note A		
Balance at beginning of year	\$ 7,390,801	\$ —
Add:		
Amount arising from recapitalization in connection with retirement of Second and Third Preferred Stock and issuance of 223,364 shares of Common Stock	—	7,421,236
Proceeds in excess of par value of shares of Common Stock issued, less related expenses	10,805,699	(30,435)
BALANCE AT END OF YEAR	<u>\$18,196,500</u>	<u>\$ 7,390,801</u>
RETAINED EARNINGS—Notes A and F		
Balance at beginning of year	\$44,868,222	\$39,825,496
Add net income for the year	9,586,583	8,166,944
	\$54,454,805	\$47,992,440
Deductions:		
Cash dividends on Preferred Stock	\$ 244,071	\$ 814,796
Cash dividends on Common Stock (1968—\$.32 a share; 1967—\$.14 a share)	1,383,258	536,585
Common Stock split effected in the form of a stock dividend (1968—1 for 4; 1967—1 for 1)	815,560	1,535,500
Excess of cost over par value of Common Stock acquired for the treasury	486,975	237,337
Premium paid on redemption of First Preferred Stock—Series B	271,308	—
	\$ 3,201,172	\$ 3,124,218
BALANCE AT END OF YEAR	<u>\$51,253,633</u>	<u>\$44,868,222</u>

See notes to financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	53 Weeks Ended February 3, 1968	52 Weeks Ended January 28, 1967 -- Note A
Source of funds:		
Net income for the year	\$ 9,586,583	\$ 8,166,944
Depreciation and amortization of property and equipment ...	4,417,975	4,033,899
Disposals of property and equipment	6,521,846	487,181
Increase in long-term debt	—	6,432,899
Proceeds from sale of Common Stock	11,155,699	—
Other	681,518	1,348,608
	<u>\$32,363,621</u>	<u>\$20,469,531</u>
Application of funds:		
Cash dividends	\$ 1,627,329	\$ 1,351,381
Additions to property and equipment	10,705,548	10,034,734
Decrease in long-term debt	3,894,998	—
Purchase of Common and Preferred Stock	5,774,448	4,281,540
Other	258,786	353,633
Increase in working capital	10,102,512	4,448,243
	<u>\$32,363,621</u>	<u>\$20,469,531</u>

See notes to financial statements.

Dayton Corporation and Subsidiaries

NOTES TO FINANCIAL STATEMENTS

February 3, 1968

Note A — PRINCIPLES OF CONSOLIDATION AND OTHER ACCOUNTING POLICIES

The financial statements include the accounts of Dayton Corporation and subsidiaries (all wholly-owned) after elimination of significant intercompany accounts and transactions.

On November 24, 1967 the Company acquired Shreve & Company in exchange for 40,435 shares of Common Stock. The transaction was accounted for as a pooling of interests and accordingly the accompanying financial statements for the years ended February 3, 1968 and January 28, 1967 (restated) include the accounts of Shreve & Company. For year ended January 28, 1967 the net sales, net income, earnings per share and shareholders' investment before restatement for the pooling of interests were: \$223,210,637, \$8,104,984, \$1.89 and \$59,718,573.

Deferred income taxes included in the tax provision arise from the use of accelerated depreciation and the

installment method of reporting income for tax purposes and are as follows:

	53 Weeks Ended February 3, 1968	52 Weeks Ended January 28, 1967
Use of accelerated depreciation ..	\$571,810	\$479,222
Installment method of reporting income	15,000	285,000
	<u>\$586,810</u>	<u>\$764,222</u>

Investment credit (1968 — \$153,949 and 1967 — \$243,728) has been used to reduce income taxes for the respective years.

Note B — PROPOSED MERGER

On March 5, 1968 the Company entered into a letter agreement for the merger of Roberts Bros., an Oregon corporation, into the Company to be accomplished by the exchange of 693,000 shares of Common Stock of the Company for all the outstanding capital stock of Roberts Bros. The transaction is subject to shareholder approval and if accomplished it will be accounted for as a pooling of interests.

Note C – ACCOUNTS RECEIVABLE

	February 3, 1968	January 28, 1967 – Note A
Due from customers:		
Thirty-day accounts	\$10,677,863	\$10,844,778
Deferred payment accounts	19,727,548	19,310,938
Other accounts	1,047,463	906,377
	<u>\$31,452,874</u>	<u>\$31,062,093</u>
Less allowance for losses . . .	652,500	524,022
	<u>\$30,800,374</u>	<u>\$30,538,071</u>

Note D – MERCHANDISE INVENTORIES

Substantially all of the inventories are priced at cost under the retail method on the last-in, first-out basis. Inventories are stated at February 3, 1968 – \$1,626,561 and January 28, 1967 – \$1,166,372 less than the amount which would have been determined under the retail inventory method without regard to last-in, first-out principles.

Note E – PROPERTY AND EQUIPMENT – on the basis of cost

	Dayton Corporation and Subsidiaries		Real Estate Subsidiaries	
	February 3, 1968	January 28, 1967 – Note A	February 3, 1968	January 28, 1967
Land and land improvements	\$ 19,844,765	\$ 21,682,414	\$15,187,080	\$14,274,091
Buildings	65,289,923	61,969,569	31,344,160	30,627,831
Equipment	22,236,919	19,609,559	576,032	566,086
	<u>\$107,371,607</u>	<u>\$103,261,542</u>	<u>\$47,107,272</u>	<u>\$45,468,008</u>
Allowances for depreciation and amortization	35,528,255	31,183,917	9,105,386	7,755,799
	<u>\$ 71,843,352</u>	<u>\$ 72,077,625</u>	<u>\$38,001,886</u>	<u>\$37,712,209</u>

Note F – LONG-TERM DEBT – due after one year

	Dayton Corporation and Subsidiaries(1)		Real Estate Subsidiaries(2)	
	February 3, 1968	January 28, 1967	February 3, 1968	January 28, 1967
5½% sinking fund notes	\$12,000,000	\$12,800,000	\$ —	\$ —
Mortgage notes	27,200,843	24,767,398	21,765,221	22,722,536
Interim financing	775,000	5,725,000	775,000	—
Contracts for purchase of land	1,823,553	2,401,996	1,823,553	2,401,996
	<u>\$41,799,396</u>	<u>\$45,694,394</u>	<u>\$24,363,774</u>	<u>\$25,124,532</u>

- (1) The 5½% sinking fund notes are payable by Dayton Corporation \$800,000 annually on each January 31st through 1981 and the balance January 31, 1982. The sinking fund note agreement contains requirements and limitations relating to the sale of receivables, working capital (\$17,500,000 required), dividends and other restricted payments. Under the provisions of the notes \$11,659,841 of retained earnings were available for dividends and other restricted payments at February 3, 1968. The contracts and mortgage notes bear interest at rates from 4¼% to 7¾% and are payable over periods ranging from 3 to 25 years from inception. Aggregate annual payments on long-term debt through January 1973, including interest where it is part of the required monthly payment, are as follows: 1969 – \$4,156,195; 1970 – \$3,850,195; 1971 – \$3,850,195; 1972 – \$3,776,641; 1973 – \$3,753,066. The net carrying amount of land, buildings and equipment pledged as collateral to the contracts and mortgage notes aggregate \$36,463,562.
- (2) The contracts and mortgages of real estate subsidiaries bear interest at rates from 4¼% to 6½% and are payable over periods ranging from 3 to 25 years from inception. Aggregate annual payments through January 1973, including interest where it is part of the required monthly payment, are as follows: 1969 – \$2,788,184; 1970 – \$2,482,184; 1971 – \$2,482,184; 1972 – \$2,408,630; 1973 – \$2,402,439. The net carrying amount of land, buildings and equipment pledged as collateral to the contracts and mortgage notes aggregate \$29,242,166.

Note G—RETIREMENT PLAN

The Company and its subsidiaries have a non-contributory retirement plan for employees. The Company's policy is to fund retirement cost accrued to date. The total of the pension fund and the Company's accruals at February 3, 1968 exceeded the actuarially computed value of the vested benefits.

Note H—STOCK OPTIONS

During the year the Company adopted a Qualified Stock Option Plan under which options for up to 100,000 shares of Common Stock may be granted by a Stock Option Committee appointed by the Board of Directors. The option price may not be less than 100% of the fair market value of the shares on the date of grant. No options have yet been granted under the Plan.

Note I—COMMITMENTS

Long-term leases at February 3, 1968 require minimum annual rentals of approximately \$2,994,000 for the Company and subsidiaries (including \$851,000 payable to real estate subsidiaries). Most of the leases also require the companies to pay taxes and other expenses and some call for additional amounts based on percentages of sales.

Commitments for the construction of new facilities and the purchase of real estate amounted to approximately \$8,000,000.

Note J—TOTAL COSTS AND EXPENSES

Total costs and expenses as shown in the statement of income are classified as follows:

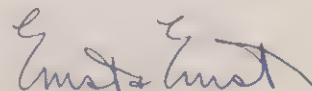
	53 Weeks Ended February 3, 1968	52 Weeks Ended January 28, 1967—Note A
Cost of sales, buying and occupancy	\$198,330,077	\$168,639,345
Selling, general and administrative expenses	45,359,690	39,578,856
Interest expense	2,699,220	2,513,376
	\$246,388,987	\$210,731,577

ACCOUNTANTS' REPORT

Board of Directors
Dayton Corporation
Minneapolis, Minnesota

We have examined the statement of financial position of Dayton Corporation and subsidiaries as of February 3, 1968 and the related statements of income, shareholders' investment and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the preceding year.

In our opinion, the accompanying statement of financial position and statements of income, shareholders' investment and source and application of funds present fairly the financial position of Dayton Corporation and subsidiaries at February 3, 1968 and January 28, 1967 and the results of their operations and source and application of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied.



Minneapolis, Minnesota
March 18, 1968

Dayton Corporation and Subsidiaries
SIX YEAR COMPARISONS†

TOTAL OPERATIONS (000's)

Net sales and rentals	
Net income	
Cash dividends	
Preferred Stock	
Common Stock	
Earnings reinvested	
Capital expenditures	
Depreciation and amortization	
of property and equipment	

PER SHARE OF COMMON STOCK

Net income	
Cash dividends	
Book value	

RETAIL OPERATIONS (000's)

Net retail sales	
Retail income before income taxes	
Percent of sales	
Retail net income	
Percent of sales	

YEAR END FINANCIAL POSITION (000's)

Cash and short term investments	
Accounts receivable, net of allowances	
Merchandise inventories	
Working capital	
Property and equipment, net of depreciation	
Retail companies	
Real estate companies	
Total	
Long-term debt	
Retail companies	
Real estate companies	
Total	
Shareholders' investment	
Preferred Stock	
Common shareholders' equity	
Total shareholders' investment	
Return on beginning shareholders' investment	
Average common shares outstanding, adjusted for	
stock splits, stock dividends, and pooling	

GENERAL

Number of stores	
Total square feet of space (000's)	
Space used in retail operations	
Space leased to others	

† Fiscal years ended approximately January 31 of following year.

1967	1966	1965	1964	1963	1962
\$265,508	\$225,617	\$192,035	\$167,667	\$149,251	\$133,728
9,587	8,167	7,081	5,535	3,481	2,003
244	815	894	908	927	933
1,383	537	40	—	—	—
7,960	6,815	6,147	4,627	2,554	1,070
10,706	10,034	9,990	5,435	9,821	10,342
4,418	4,034	3,708	3,489	2,973	2,337
2.21	1.88	1.51	1.13	.62	.25
.32	.14	.01	—	—	—
16.56	13.44	10.36	8.67	7.53	6.91
\$260,174	\$220,511	\$188,426	\$164,676	\$146,498	\$131,048
19,004	14,502	14,446	9,642	6,689	4,538
7.3%	6.6%	7.7%	5.9%	4.6%	3.5%
9,531	7,934	7,219	5,453	3,449	1,804
3.7%	3.6%	3.8%	3.3%	2.4%	1.4%
18,388	5,081	4,540	3,835	2,848	2,363
30,800	30,537	27,949	25,666	23,677	22,095
38,557	32,151	28,494	25,261	22,542	21,262
44,182	34,080	29,634	25,241	24,691	27,464
33,841	34,365	30,120	31,111	30,573	25,401
38,002	37,712	36,443	30,389	29,322	28,121
71,843	72,077	66,563	61,500	59,895	53,522
17,435	20,570	15,725	16,632	17,540	18,476
24,364	25,124	23,536	19,150	19,283	17,778
41,799	45,694	39,261	35,782	36,823	36,254
—	4,999	14,925	15,128	15,488	15,571
73,913	55,573	41,418	35,569	31,069	28,515
73,913	60,572	56,343	50,697	46,557	44,086
15.8%	14.5%	14.0%	11.9%	7.9%	4.6%
4,227	3,906	4,094	4,104	4,127	4,261
25	15	11	10	10	10
3,629	3,344	2,812	2,655	2,576	2,347
1,185	1,089	884	778	757	724

Dayton Corporation
DIRECTORS

ROBERT G. BERTHOLF

BRUCE B. DAYTON

DONALD C. DAYTON

DOUGLAS J. DAYTON

K. N. DAYTON

WALLACE C. DAYTON

HADLAI A. HULL

STEPHEN F. KEATING, *President*
Honeywell Inc.

ROBERT J. KEITH, *Chairman of the Board*
The Pillsbury Company

DAVID M. LILLY, *President*
Toro Manufacturing Corporation

PHILIP H. NASON, *President*
The First National Bank of Saint Paul

NEW DIRECTORS



Stephen F. Keating



Robert J. Keith



David M. Lilly



Philip H. Nason

OFFICERS

DONALD C. DAYTON, *Chairman of the Board*

BRUCE B. DAYTON, *President*

K. N. DAYTON, *Executive Vice President*

ROBERT J. CRABB, *Vice President, Corporate Planning*

JOHN A. CURRY, *Vice President and Corporate Controller*

WILLIAM A. HODDER, *Vice President, Organization*
Planning and Development

HADLAI A. HULL, *Vice President and Treasurer*

WAYNE E. THOMPSON, *Vice President, Environmental*
Development

HAROLD I. LUNDE, *Corporate Secretary*

J. R. A. BOLINE, *Assistant Secretary and Assistant*
Treasurer

GERALD R. DIRKS, *Assistant Treasurer*

JOHN E. SCHWARZ, *Assistant Treasurer*

DAYTON'S DEPARTMENT STORES

WILLIAM A. ANDRES

Chairman of the Board

CARL R. ERICKSON

President

EDWARD A. ANDERSON

Vice President and General Merchandise Manager

WILMA M. AUFDERHEIDE

Vice President and Controller

W. WALLACE BARRETT

Vice President and General Operating Manager

WILLIAM E. GARBETT

Vice President and General Merchandise Manager

THOMAS W. JEGLOSKY

Vice President and Publicity Director

ROY C. KOHLER

Vice President, Branch Stores

THOMAS O. MAETZOLD

Vice President and Personnel Director

IVAN J. MINDERHOUT

Vice President and General Merchandise Manager

TARGET DISCOUNT STORES

DOUGLAS J. DAYTON

President

JOHN F. GEISSE

Senior Vice President and General Merchandise Manager

KERMIT W. HALDEN

Vice President and Director of Stores

RICHARD C. KLEIN

Vice President, Controller and Assistant Secretary

B. DALTON, BOOKSELLER

RICHARD N. HAGEN, *President*

DAYTON JEWELERS

SAMUEL B. DRUY, *President*

HOWARD J. HICKINGBOTHAM

President, Shreve and Company

STANLEY S. SMITH

General Manager, J. B. Hudson, Jeweler

DAYTON DEVELOPMENT COMPANY

ROBERT G. BERTHOLF, *President*

JAMES C. DOUGLAS

Vice President, Secretary and Treasurer

JAMES C. McCLUNE

Vice President and General Manager of Shopping Centers

EIGHTH STREET DEVELOPMENT COMPANY

WILLIAM CREAR, JR., *President*

DAYTON CREDIT COMPANY

HADLAI A. HULL, *President*

CORPORATE OFFICES

700 Nicollet Mall
Minneapolis, Minnesota 55402

TRANSFER AGENTS

Northwestern National Bank
of Minneapolis and
First National City Bank,
New York City

REGISTRARS

First National Bank
of Minneapolis and
The Chase Manhattan Bank,
N.A., New York City



Dayton Corporation

700 Nicollet Mall
Minneapolis
Minnesota 55402

